International Business Success in a Strange Cultural Environment

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Dr. M. Mababaya
13 Dul Qa’da 1423 Hijrah/16 January 2003
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Glossary

Ahadith	The plural of the Arabic term *Hadith*, which means saying of the Prophet Muhammad ﷺ (*Sallallaahu 'alayhi wa sallam* — may the peace and blessings of Allah be upon him).
CIHED	Northeastern University Center for International Higher Education Documentation
Culture	Customs, traditions and practices. In Islam, culture embraces all facets of life – economic, political, social, religious, etc.
DFI	Direct foreign investment or foreign direct investment (FDI)
Feedstock	Raw material like gas or any hydrocarbon resource
GDP	Gross domestic product, which is the total value of goods and services produced in a nation's economy in one year.
GFCF	Gross fixed capital formation
GNP	Gross national product, which is equal to GDP plus payments from overseas investment and labour income, minus similar payments to foreigners.

Islam	Peaceful and complete submission to the Will of Allah and obedience to His Law (the *Shari'ah,* which is based on the Qur'an and the Sunnah and the right deductions from these two revealed sources of knowledge and guidance).
JV	Joint venture
MBA	Multinational business activities
MNCs, MNEs	Multinational companies or corporations, which refer to any of the following: foreign firms or multinational enterprises (MNEs) operating in Saudi Arabia whose parent companies are located abroad, and joint-venture companies or corporations, which are partially owned by Saudi Arabian people or government.
Multinational managers	Include key managers and executives with authorities and responsibilities for MNCs planning, business operation and decision-making.
Muslim	One who peacefully and sincerely submits to the Will of Allah.
NOI	Net outward investment
R&D	Research and development

Radhiallahu anhu	رضي الله عنه May Allah be pleased with him (referring to a companion of the Prophet ﷺ)
SABIC	Saudi Basic Industries Corporation
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Agency
SEC	Supreme Economic Council, chaired by the Crown Prince and First Deputy Premier of Saudi Arabia.
Shari'ah	Islamic Law according to the Qur'an and the Sunnah and those deduced from these two revealed scriptures.
Social capital	Refers to features of social organization such as trust, social networks and social norms that facilitate coordination and cooperation for mutual benefit.
SPSS	Statistical Package for Social Sciences – a comprehensive statistical software of SPSS Inc., Chicago, USA.
Sunnah	The teachings, sayings and traditions of the Prophet Muhammad ﷺ *Sallallaahu 'alayhi wa sallam* — may the peace and blessings of Allah be upon him)

Chapter 1

Introduction

Strangeness Explored

Newcomers to Saudi Arabia — especially non-Muslim foreign investors, businessmen and workers — often find many things "strange" about the Kingdom, its people and cultural values. They find the *adhan* (call to prayer) strange, as it is usually done using a loudspeaker. They cannot understand why such an "unusual" loud sound has to be repeated five times a day.[1] Some feel annoyed when they are woken from sleep due to the *adhan* and the varied voices of the *Imams* (those leading the prayers) during *Salatul fajr* (dawn prayer). Their feelings of indignation grow when they hear the loud voices of the *Imams* during *Isha* (regular night prayer) and *Taraweeh* (recommended extra prayer) in all mosques throughout the month of *Ramadan*. Many non-Muslims become more displeased when they hear the *Imams* recite loudly long verses of the Qur'an at *Tahajud* or *Qiyaamullail* (midnight prayer) in the last ten days of Ramadan.

Visitors to Saudi Arabia feel it odd that many Muslims give more importance to prayer than business. Some are disappointed when they find commercial establishments like shopping centres closed as Muslim workers go to the mosques to attend to their daily prayers. Business visitors find strange the fact that in the midst of their meetings with their Saudi or Muslim counter parts, the latter excuse themselves for prayer.

Many non-Muslims also feel strange when they see Saudi women, and their fellow sisters in the Muslim world, wearing a black *abaya* (a cloak) and *niqaab* (face covering). They have all these "strange" feelings due to their lack of understanding of true Islamic culture. The Prophet Muhammad ﷺ (*Sallallaahu 'alayhi wa sallam* — may the peace and blessings of Allah be upon him) foresaw this phenomenon when he said:

> *"Islam started as something strange and it would revert to being a stranger in the same way it started, so good tidings for the strangers."*[2] (Muslim 1/270, narrated on the authority of Abu Hurayrah رضي الله عنه)

Integrating Islamic Culture into the Study of International Business

The subject of culture is not at all strange in the academic area of international business. In fact, a number of contemporary scholars have recognised the importance of integrating culture into the study of international business (IB). They have predicted that culture is likely to become centre-stage in much of IB research over the next decade or so. The need to incorporate culture into the study of international business is much more important in the case of Saudi Arabia — a country which many non-Muslims consider as having a strange culture. The Kingdom has also become a focus of world attention recently for a number of reasons. One, Saudi Arabia is the Islamic world's centre, being the location of the two holy places of Makkah and Madinah. It is well known that from Saudi Arabia, Islam has spread to all corners of the globe, to a point that the Muslim population now accounts for one in every 5 persons on earth. Second, Islam is one of the most misunderstood religions in the world today. To many, especially non-Muslims in many parts of the world, Islam is a strange religion, and this is partly as a result of Islamophobia — a "hate" campaign for centuries by the enemies of Islam and the Muslims. The promoters of Islamophobia attribute to Islam all problems involving

Muslims in the Muslim world and elsewhere. Third, some individuals or groups point to the clash of Islamic vis-à-vis western civilisation as the raison d'etre for the unexpected tragic attack on America on 11 September 2001.

Many studies have been conducted on multinational business operations across the globe, but only a few have relevance to Saudi Arabia. By the same token, none of those studies has ever investigated deeply the importance of understanding Islam and the underlying implications to multinational business.

The U.S.-Saudi Arabian Business Council is one of the organizations that help promote business relations between the United States and Saudi Arabia. In its booklet *A Business Guide to Saudi Arabia* (1996: 4), it attempts "to promote broader understanding and enhanced business opportunities among U.S. and Saudi Arabian companies in order to further strengthen the bilateral business relationship." The booklet mentions the *Shari'ah* (Islamic Law) — based on the provisions of the Holy Qur'an, the Sunnah (the teachings and deeds of the Prophet Muhammad), the consensus of the "*Ulama*" (religious scholars), and legal analogy — as the basis of the Kingdom's legal system (U.S.-Saudi Arabian Business Council 1996: 8, 49). However, the basic teachings of Islam or Islamic Law that American businessmen must know are nowhere to be found in the booklet. Aware of the need to help Americans understand Islamic culture, the U.S. State Department has recently included in its website some useful information on Islam and Muslims in America (http://usinfo.state.gov/usa/islam/). However, most of these provide too narrow a message to be able to help readers understand fairly the authentic teachings of Islam.

Other useful guides to doing foreign business in Saudi Arabia include: *Guide to the Licensing of Foreign*

Investment in the Kingdom of Saudi Arabia, by the Riyadh-based Foreign Capital Investment Bureau of the Ministry of Industry and Electricity (1992); *A Guide to Industrial Investment,* by the Saudi Consulting House (1981); *Joint Ventures in Saudi Arabia* by Walmsley (1979). All of these guides have neither emphasised the importance of understanding Islamic culture nor covered a comprehensive discussion of the relevant Islamic ethics and values that need to be learned by multinational enterprises and their personnel.

This book explores the success of multinational enterprises doing business in Saudi Arabia vis-à-vis their cultural awareness and responsiveness. It highlights Islamic culture as one of the factors that contribute to the success of multinational business operation in the Kingdom. By Islamic culture, it is meant Islam in its entirety. Thus, the cultural aspect of this work will help major institutions worldwide gain understanding of Islam. This will enable them to identify, understand and reconcile, if possible, their cultural differences with the Muslim world.

Indeed, MNC managers and other decision-makers with limited understanding of Islam will find this book very helpful in managing the culture related aspects of their operations and activities in Saudi Arabia and the *Ummah* (Muslim nation). This, in turn, may help MNCs overcome their problems and help them tap further economic opportunities in the Muslim world.

The cultural aspect of the study is intended to help contribute positively to the current stock of knowledge on the subject of international business. This is expected to be useful to business decision makers, economists and international business scholars who may wish to go deeper into the study of MNC business patterns and operations in the Middle East, particularly Saudi Arabia.

Scope and Definition of Terms

The book is an offshoot of the author's published doctoral thesis entitled "The Role of Multinational Companies in the Middle East: The Case of Saudi Arabia" (Mababaya 2002). It focuses on culture as an important factor contributing to the success of multinational business in Saudi Arabia. In addition, the author attempted to relate the business success of MNCs vis-à-vis cultural factors. Among the given success measures, sales growth turned out as the most appropriate success indicator in the light of data availability/constraints.[3]

This work includes a comprehensive review of available literature on the nature, growth and business activities of firms operating across national boundaries. Many contemporary theories and paradigms on multinational business operations have emerged in the past few decades or so, beginning mainly to explain post-war U.S. manufacturing or direct investment in West Europe, rather than services such as banking.[4] In recent times, various multinational business theories (along economic and management perspectives) have continued to emerge with an emphasis on the existence and growth of international production. Approaches to other cross-border business modalities are taken for granted as alternatives to multinational enterprise (or more specifically international production). Accordingly, firms choose to pursue direct foreign investment (or wholly owned production subsidiary across national borders) in the light of their ownership-specific advantages and other considerations. Thus, multinational enterprise can emerge by virtue of these advantages, and in response to imperfections in the goods or factor markets. There is a common view among international business scholars that market imperfections (such as tariff and other import barriers) prevent the efficient operation of international trade, hence the emergence of multinational companies.

In attempting to explain the existence and growth of multinational companies (MNCs) as a response to market imperfections, some scholars emphasise structural market imperfections (e.g. monopolistic tendencies). Others emphasise endemic or transactional imperfections.[5] For instance, the internalisation theory supposes that higher transaction costs prompt firms to internalise markets across national boundaries. Internalising a market means the establishment of a multinational firm or a group of interdependent firms. This view, as well as the other alternative theories available in the literature, is reviewed and discussed in this book.

In reality, national and international firms operate under all sorts of imperfect market conditions. After all, no market is ever perfect, recalling perfect information as one of the key assumptions that underlie the theory of perfect competition. The presence of imperfect conditions puts some companies in better competitive positions (or greater competitive advantages) than others for certain products or services locally and internationally.

By definition, multinational companies as viewed in this book are not confined to manufacturing-based firms or enterprises, which are integrated across national frontiers either horizontally or vertically. The author recognises that the essential elements of MNC operations are direct (as distinct from portfolio) investment abroad giving a power of control over decision-making in a foreign enterprise; the collective transfer of resources, involving factor inputs such as knowledge and entrepreneurship as well as money capital; and finally the requirement that the income-generating assets acquired by this process be located in a number of countries (Hood, Neil and Young 1979: 2). Along this line, a company can be considered "multinational" when it owns (in whole or in part), controls and manages income-generating assets in more than one country; or, when it has production or service facilities outside the country of its origin (The Economist Dictionary of Economics 1998: 286). An MNC is commonly known for its international production activity financed by foreign direct investment (Hood, Neil and Young 1979: 3).

The term "multinational" signifies that the activities of the company or firm involve more than one nation (United Nations. In Modelski 1979: 15). The "company", "corporation," "firm" and "enterprise" are used interchangeably in this work, within the context of common usage and without being dogmatic about their respective legal connotations. Another notion of MNC is that it is a firm that thinks 'multinationally' — one that weighs alternative investments on a global basis (Connor 1977: 3) in terms of profit maximisation and competing, non-profit-maximisation, considerations (Stevens. In Dunning 1974: 49-60). Others have advocated the application of "performance" criteria, i.e., some absolute or relative size of sales, assets, work force, or earnings derived from foreign operations. Connor (1977: 4-9) describes the modern MNC as a very large, complex institution involving the central control of a certain minimum number of foreign subsidiaries of substantial asset size and extent of geographical (that is, cross-national) spread. It has a strong tendency to be producing differentiated, technologically intensive products in relatively concentrated industries.

Frank (1981: 7) defines multinational enterprise as "an enterprise which carries out operations, such as production of goods or the provision of services, in more than one country through component units which are subject to some measure of central control." Dunning (1993a: 79) defines it as an enterprise, which engages in foreign value-added activities and internalises intermediate product markets across boundaries. According to Kolde (1973: 134), "the basic notion in any definition of MNE [multinational enterprise] is that of a number of affiliated business establishments which function simultaneously in different countries."

The author accepts all the foregoing definitions, but a note of caution needs to be borne in mind. A multinational firm may have a manufacturing activity in its home country; it may or may not have cross-border manufacturing activities in some countries like Saudi Arabia. The same firm may engage in value-adding activities (say joint ventures, international trading or project management) in Saudi Arabia or elsewhere in the Middle East. This does not mean that the same firm loses its multinational character simply because it engages in value-adding activities outside the realm of international production.

As this work is exploratory in character, its scope is not confined to a particular industry, multinational firm or product group. In other words, there is no restriction on the type of multinational company covered in this work.

The book primarily addresses the importance (for MNCs) of understanding Islamic cultural and ethical values. The values and ethics covered are based on the Qur'an and the Sunnah (the Prophet's tradition) — the two authentic sources of Islamic teachings. This is very important, as Saudi Arabia is a country that has officially declared to be adhering to the teachings of the Qur'an and the Sunnah. Relevant aspects of Islamic culture and their implications to multinational business operations in Saudi Arabia are incorporated in this book, which may serve as a base upon which the multinationals may gauge their actual knowledge of the various branches of Islamic culture.

Notes

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[1] As explained by Zeno (1996) the *Adhan* — announcement that the time of a particular *Salat* has begun — is done with the purpose of calling Muslims to success (by praying in congregation). This *Sunnah* is quite unique and meaningful vis-à-vis the Christian practice, for example, of ringing a bell in churches, which does not have any meaning. *Adhan* has the following transliterated wordings and meanings:

Allahu Akbar, Allahu Akbar; Allahu Akbar, Allahu Akbar
"Allah is the Most Great" (repeated 4 times).
Ash-hadu an la ilaha illa-Allah, Ash-hadu an la i1aha illaAllah
"I bear witness that none has the right to be worshipped but Allah" (twice).
Ash-hadu anna Muhammadan Rasul-ullah (twice)
"I bear witness that Muhammad is the Messenger of Allah" (twice).
Haiya 'alas-Salah, Haiya 'alas-Salah
"Hurry towards Salah' (twice).
Haiya 'alal-Falah (twice)
"Hurry towards success" (twice).
Allahu Akbar, Allahu Akbar
"Allah is the Most Great" (twice).
La ilaha illa-Allah
"None has the right to be worshipped but Allah" (once).
Note: In the call to prayer for Fajr (the Dawn Prayer) the Mu'adhdhin (caller) adds after Haiya 'alal-Falah:
As-Salatu Khairum minan naum (twice)
"The Salat is better than sleep" (twice).
(See Zeno, Sheikh Muhammad bin Jamil. (1996) *The Pillars of Islam and Iman And What Every Muslim Must Know About His Religion.* Riyadh: Dar-us-Salam Publishers and Distributors.)

[2] Note No. 271 (Muslim 1971: 86) explains in detail the implications of this *hadith* (Prophet's saying) as quoted below:

What this hadith implies is that, although the teachings of Islam are so akin to the nature of man, yet when these were preached the people shunned them as strange and unfamiliar things. Secondly, the preaching of Islam started at Makkah, the birthplace of the Prophet Muhammad ﷺ, but the atmosphere did not prove congenial to its growth and the Makkans treated him as a stranger. He had to find an abode in Madinah — a place were he and Islam were strangers, but it proved to be very congenial, for it made an amazing progress. The Prophet Muhammad ﷺ became the central figure of Arabia, and won a large number of adherents. Islam became the most powerful religion and began to gain ascendancy even far beyond the frontiers of Arabia.

The second part of the hadith is a prophecy, the truth of which can be seen by every man. The Muslims are so engrossed in other pursuits of life that a large majority of them seem to have not even a nodding acquaintance with Islam. Their ideas, their individual and social behaviour, their tastes and tendencies, their manners and habits, their political, economic and social systems are nothing but a blind imitation of un-Islamic values. These values have taken such a firm hold on the minds of the Muslims that Islamic values appear strange to them and those who uphold them are considered to be strangers in the modern society. To such noble souls who resolutely profess and practise Islam even in such untoward, rather hostile circumstances, the Prophet Muhammad ﷺ gave them glad tidings. Every Muslim can see with his own eyes the truth of the prophecy made 1400 years ago by the Messenger of Allah ﷺ. (See Muslim, Imam Ibn Hajjaj. (1971) *Sahih Muslim*. Rendered into English by Siddiqi, Abdul Hamid, Vols. I-IV. Riyadh: International Islamic Publishing House.)

[3] Measuring the success of Saudi companies with multinational partners or with represented multinational companies is quite difficult and this could be a challenging area of future research. This is so because these companies, unless they are joint stock or public shareholding companies, do not publicise their financial data or statistics. The annual reports of multinational firms, with joint ventures or representative offices in Saudi Arabia, are easily obtainable, but they are usually global in scope, with very general information on sales revenues, profitability, rate of return on capital

employed and other financial indicators. Income statements and balance sheets included in these reports do not show separate entries for their specific revenues, expenses and net profits (losses) in Saudi Arabia. The reports that they may be submitting to the Saudi government for taxation purpose are not available to public domain. The annual reports of the multinational affiliates or joint ventures in Saudi Arabia go to their parent companies, but the latter do not disclose such information to the Saudi public. The exception to this is when a multinational joint venture is a joint stock company, which for obvious reason will have to open its annual report to its public shareholders.

The data problem highlighted above is not new and not confined to multinationals operating in Saudi Arabia. In fact, Lall and Streeten (1977: 5-6) stressed that most developed countries do not publish comprehensive information on the foreign operations of their firms partly as a result of business secrecy and partly owing to a lack of official scrutiny. They remark:

Quite apart from these conceptual difficulties, there are great gaps in the statistics available, from both investor and recipient countries, on foreign investment. Partly as a result of business secrecy and partly owing to a lack of official scrutiny, most developed countries do not publish comprehensive information on the foreign operations of their firms. Even the United States, which has by far the best coverage of all aspects of business activity, is found wanting: thus, the massive study recently prepared for the US Senate's Committee on Finance (US Tariff Commission, 1973), with almost 300 tables of detailed statistics on US transnationals for 1966 and 1970, had to rely for its 1970 data on a sample of 298 parent companies, which were then used to extrapolate figures for the entire group of some 3400 companies with foreign investments for which data had been obtained for 1966. Furthermore, data on foreign operations were available only for majority-owned affiliates, leaving out a substantial proportion of operations abroad which were in fact controlled by US TNCs (Lall, Sanjaya and Paul Streeten. (1977) *Foreign Investment, Transnationals and Developing Countries*. London: The English Language Book Society and Macmillan).

[4] In the past, two main issues became the focus of research on companies operating across national borders — why do the American firms produce or directly invest in Europe rather than in the United States, and how can they compete with indigenous West European producers, given the additional costs of doing business abroad? See Casson in Hertner and Jones 1986: 43.

[5] Some details on the nature and types of market imperfections are explained in Chapter 2 and elsewhere.

Chapter 2

Review of Multinational Theories and Their Relevance to Saudi Arabia

Economic Approaches to the Study of Multinational Business

The nature, growth and business activities of multinational firms have been studied at length over the past three decades or so, with economists at the forefront of the research on this subject (Cantwell 1991a: 17-18). On a microeconomic level, numerous studies focused on the cross-border operations of individual firms. Various studies dealt with the cross-border interactions of firms at “mesoeconomic” (industry) level, as described in the literature. Other studies emphasised the growth and trends of multinational firms at macroeconomic level. These three have one common research direction, i.e., attempting to explain the phenomenon of international production.[1]

The microeconomic and mesoeconomic approaches to the study of multinational business include the theory of the firm by Coase (1937, 1987), as well as the internalisation theory by Buckley and Casson (1976) and Rugman (1980, 1981 and 1982). They also include the markets and hierarchies approach by Williamson (1975, 1985), the market power approach or the theory of international operations by Hymer (1960, 1976), and the industrial organisation approaches by Bain (1959), Caves (1971, 1982), Hirsch (1976), Johnson (1970) and Lall (1980a).

Coase (1937) departed from the traditional micro-economic assumption that economic activity is determined freely by the price mechanism and that the economic system "works itself". That is, suppliers respond to demand changes, and buyers respond to supply changes, through the open market system, which is viewed as an automatic, responsive process. In his view against the traditional thinking that the economic system is “being co-ordinated by the price mechanism”, Coase argues:

> *This co-ordination of the various factors of production is, however, normally carried out without the intervention of the price mechanism. As is evident, the amount of "vertical" integration, involving as it does the supersession of the price mechanism, varies greatly from industry to industry and from firm to firm. It can, I think, be assumed that the distinguishing mark of the firm is the supersession of the price mechanism.* (Coase 1937 in Williamson and Winter 1991: 20)

Coase (in Williamson and Winter 1991: 30) proposes that “at the margin, the costs of organising within the firm will be equal either to the costs of organising in another firm or to the costs involved in leaving the transaction to be ‘organised’ by the price mechanism.” Although the Coasian theory is confined to the domestic horizon of the firm, this later served as the foundation of what is today called internalisation theory. This latter theory proposes that foreign production and sales of the MNE take place in response to imperfections in the goods and factor market.[2]

The concept of internalisation can be traced back to the theory of industrial organisation. For instance, Bain (1959) advances the proposition that there will be possibilities of integration by the firm (acquiring or combining with supplier firms or customer firms) which, among others, have positive economies or savings in cost. He says that atomistic market structures with unrestricted competition will tend to force or make "automatic" efficiencyincreasing integration, and likewise tend to deter inefficient integration. Bain further claims that no particular sort of integration will be fully forced in an oligopolistic situation, but there should be a tendency for oligopolistic firms to integrate if there are other advantages (other than costs) to the integration that will not result in inefficiency. He asserts that "even inefficient integration is possible if it has offsetting advantages" (Bain 1959: 168).

Hirsch (1976) proposed that the optimal choice between international trade and international production is determined by the firm's specific knowledge advantages (arising from past investments in product or process R & D and/or investments in advertising and other promotional techniques) and other intangible assets (e.g. managerial know-how). Rugman (1981: 45) interprets Hirsch's model as one that "treats knowledge as an intermediate product which is internalised in the structure of the MNE." These ownership advantages impose effective barriers to entry to rival firms. They also render a temporary monopoly power to the firm allowing it to earn a profit above the prevailing industry level. Hirsch (1976) hypothesises that the greater these ownership advantages, the more the economics of production and marketing favour a foreign location and, hence, foreign direct investment.[3] On a macro level, the propensity of a particular country to venture into international production is largely dictated by the ownership advantages enjoyed by its firms (Dunning 1981: 79).

Tolentino (1993: 38) cited Johnson (1970) who likewise found ownership advantages — managerial and technical knowledge — to be the prime determinants of direct investment. Since knowledge creation is a costly process, he is of the view that the resultant product may be charged a monopoly price as an incentive to its producer.